EMBARGOED UNTIL 11.30 AM AEST 15 JULY 2020

NAB MINERALS AND ENERGY OUTLOOK JULY 2020

OVERVIEW

- A number of commodity markets saw stronger prices in June – particularly base metals, gold and oil.
- Although global PMI surveys suggest something of a recovery in global manufacturing conditions in June – providing support for commodity demand – price pressures appear to largely be on the supply side. Relative strength in iron ore and base metals markets appear partly due to supply fears related to COVID-19 outbreaks, mostly in Latin America. A modest recovery in oil prices has been driven by supply cuts from OPEC+.
- In annual average terms, US dollar denominated commodity prices (as measured by our non-rural commodity price index) are forecast to fall by 13.7% in 2020. This fall is largely driven by Liquefied Natural Gas (LNG) and hard coking coal. We forecast a modest increase in prices in 2021 – increasing by just 0.8%.

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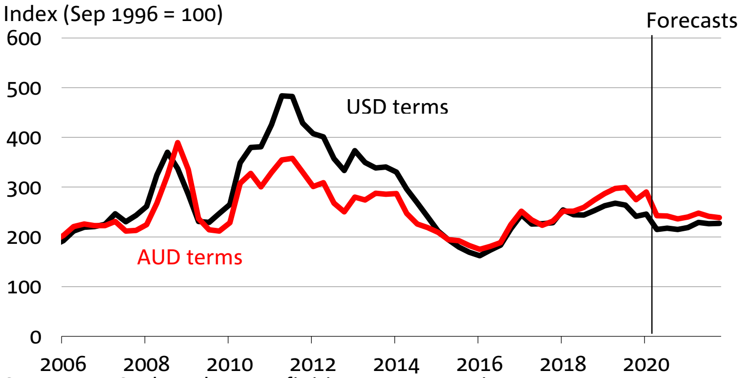
NAB NON-RURAL COMMODITY PRICE INDEX



Sources: ABS, Bloomberg, Refinitiv, NAB Economics

NAB COMMODITY PRICE FORECASTS

	Unit	Spot 10/07/2020	Actual Jun-20	Forecasts Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22
WTI oil	US$/bbl	40	26	37	42	43	44	45	46	46	47
Brent oil	US$/bbl	43	33	40	45	47	48	49	50	50	51
Tapis oil	US$/bbl	47	35	42	47	49	50	51	52	52	53
Gold	US$/ounce	1801	1710	1730	1730	1750	1780	1800	1850	1850	1880
Iron ore (spot)	US$/tonne	107	92	93	87	85	90	80	75	80	75
Hard coking coal*	US$/tonne	n.a.	118	113	118	123	138	133	138	148	153
Thermal coal (spot)	US$/tonne	54	56	55	59	59	61	62	65	66	64
Aluminium	US$/tonne	1659	1498	1620	1680	1740	1760	1770	1780	1790	1800
Copper	US$/tonne	6419	5351	5750	6000	6250	6500	6750	7000	7100	7000
Lead	US$/tonne	1842	1678	1800	1875	1950	2025	2025	2048	2072	2095
Nickel	US$/tonne	13473	12233	13000	13500	13900	14100	14200	14300	14400	14400
Zinc	US$/tonne	2184	1968	2100	2125	2150	2175	2175	2200	2225	2250
Aus LNG**	AU$/GJ	n.a.	8.8	6.9	7.3	7.8	8.1	8.5	9.2	9.3	9.4

* Data reflect NAB estimates of US$/tonne FOB quarterly contract prices, based on quarterly average spot prices.

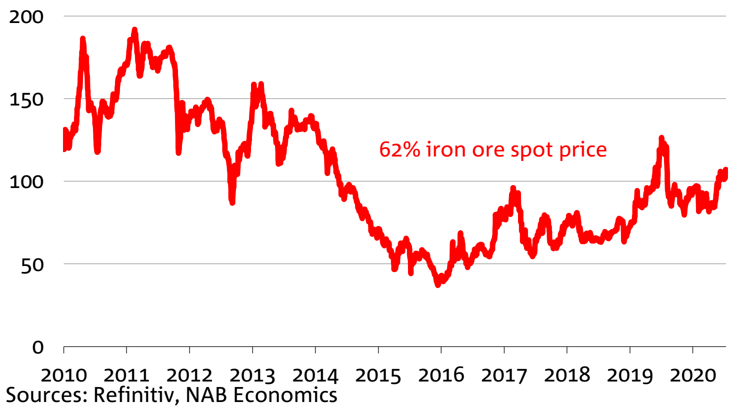
** Implied Australian LNG export prices

IRON ORE

Spot prices for 62% iron ore were largely range bound in June – trading between US$100 and US$110 a tonne. Concerns around the supply of iron ore from Brazil persist – reflecting the surge in COVID-19 cases in the country – however the impact to date has been unclear. Brazil's iron ore exports fell by 28% yoy in May, but rose by 1.3% yoy in June. On the demand side, global manufacturing PMIs have improved considerably – pointing to a broad recovery in global economic conditions, however second wave outbreaks remain a risk. Our forecasts are unchanged this month, with 62% iron ore to average around US$90 a tonne in 2020, before easing to US$83 a tonne in 2021.

SPOT PRICES RANGE BOUND ABOVE US$100/T

US$/t (CIF)



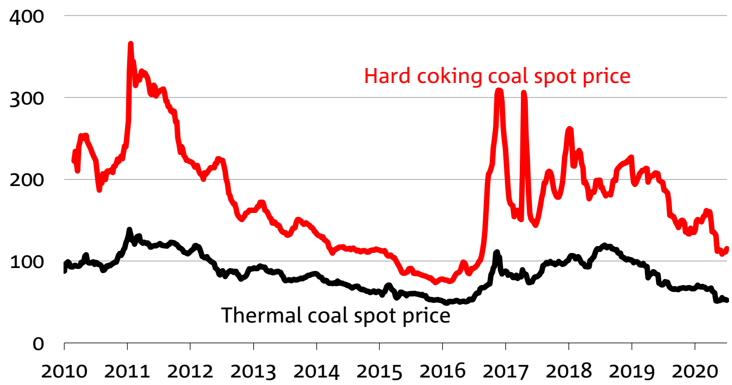
Sources: Refinitiv, NAB Economics

COAL

Coal markets remained relatively subdued in June. Prices for thermal coal have remained around the mid-US$50 range since mid-May, in an environment of lower demand (due to COVID-19 countermeasures) and excess supply of natural gas (including LNG) as a substitute fuel for electricity generators. Prices for hard coking coal edged a little higher, but remain well below pre-COVID-19 levels. Our forecasts are unchanged, with hard coking coal forecast to average US$126 a tonne in 2020, before edging up to US$133 a tonne in 2021, while thermal coal prices are forecast to average US$60 a tonne in 2020 and US$62 a tonne in 2021.

COAL PRICES REMAIN RELATIVELY WEAK

US$/t (FOB)



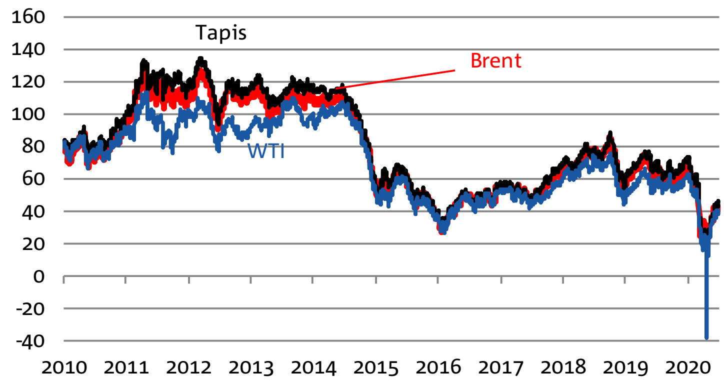
Sources: Bloomberg, NAB Economics

OIL

The benchmark Brent has been trading around the low US$40s/bbl in recent weeks, with the price largely supported by cuts from OPEC+. OPEC+ will cut output by 9.7 million bpd until July, with a decision on further cuts beyond this period expected soon. Production cuts have also taken place in the United States; the Baker Hughes Rig count has fallen to a low of 258, 73% less than the same time last year. There were positive signs about a nascent economic recovery from indicators such as the US nonfarm payrolls. However, further lockdown measures due to a further flare-up in COVID-19 infections has stoked demand worries. For example, in California, the authorities rolled back some re-opening measures relating to bars, cafes and restaurants.

OIL: REMAINING RANGEBOUND

US$/bbl



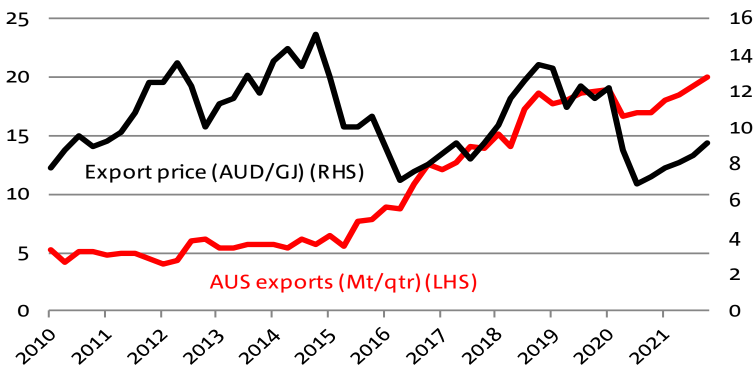
Source: Refinitiv, NAB Economics

GAS

Prices in Asia have remained broadly steady, with the benchmark Japan Korea Marker (JKM) relatively steady at US$2.2/mbtu. Despite an easing of lockdowns in parts of the world, demand continues to remain weak, with a number of US export cargo cancellations in August. The re-emergence of the COVID-19 pandemic in Victoria, parts of the United States, Asia and Latin America will continue to constrain demand and production. Consultancy Rystad Energy is expecting global LNG output to decline by 2.6% in 2020, driven largely by the virus impacts. The value of Australian LNG exports will decline sharply, largely driven by weaker export prices, with the most acute impact being felt in the 2020-21 financial year.

LNG : SHARP FALL IN VALUE OF EXPORTS

Export volume (LHS) export price (RHS)

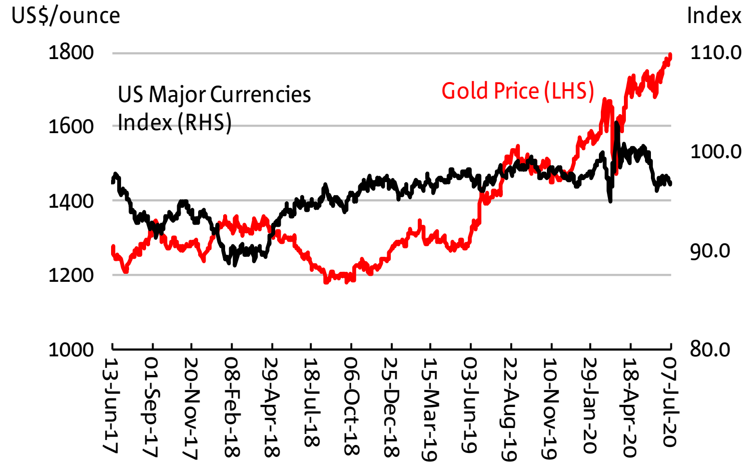


Sources: ABS, Poten & Partners, Bloomberg, NAB Economics

GOLD

Gold was trading around US$1800/oz during the past week, the highest since September 2011. The renewed spread of COVID-19, rising geopolitical tensions, recent softness in the US dollar (see chart) and extremely supportive monetary (and fiscal policies) have supported the gold price. Demand has largely been driven by Exchange Traded Funds (ETFs) by Western investors. According to the World Gold Council, ETFs added 734 tonnes of gold to their holdings during the first half of 2020, the highest first half on record. In contrast, jewellery demand from India and China remained subdued. Gold's appeal is likely to ensue for some time yet, given the uncertain outlook for the US economy in light of the recent surge in COVID-19 cases.

GOLD: SCALING NEW HEIGHTS

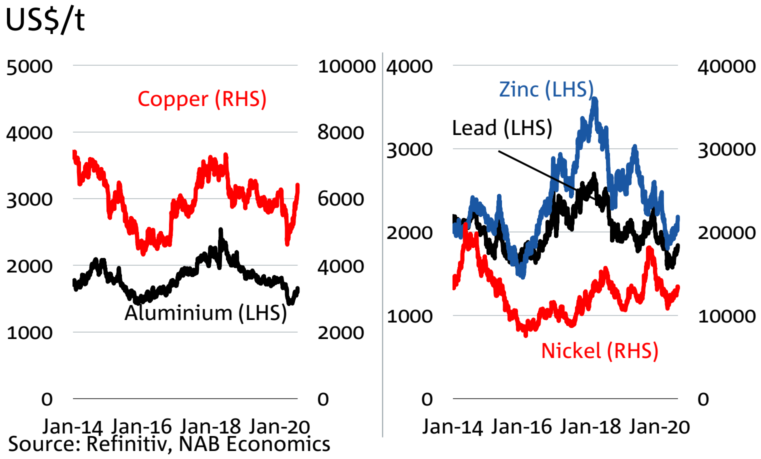


Source: Thomson Datastream, NAB

BASE METALS

Spot prices for base metals rose across the complex in June and into early July, as signs of a global recovery in manufacturing surveys boosted hopes around metal demand, while a range of producers face supply side risks due to COVID-19. In particular, copper prices surged, up around 39% (at the time of writing) from the trough in March, in part due to concerns around supply in Chile. Spot prices for the entire complex currently sit above our quarterly forecasts, highlighting upside risk to this outlook.

RAPID REBOUND IN METALS IN JUNE



Source: Refinitiv, NAB Economics

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